
OILEXCO

CORPORATE PROFILE

Oilexco Incorporated is a Canadian Energy company committed to achieving growth and creating shareholder value through oil and gas exploration and production in western Canada, the southern United States, Bolivia, and the Middle East.

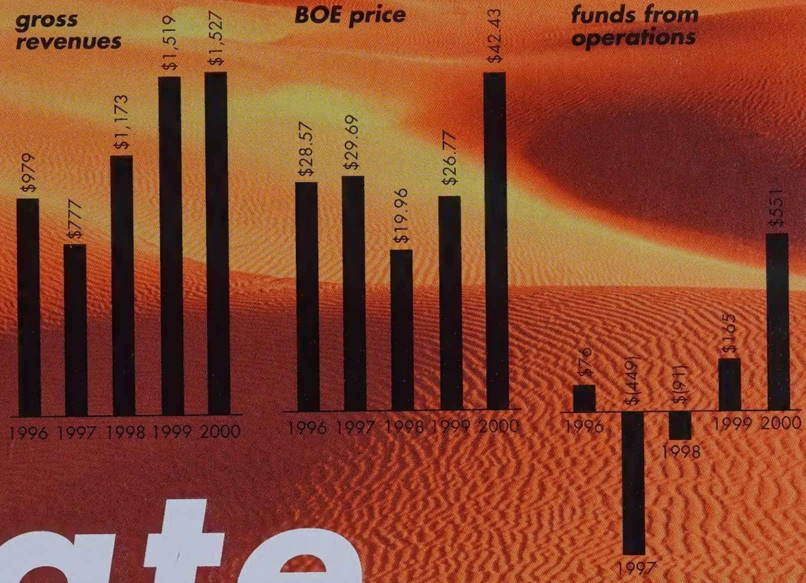
Oilexco's domestic exploration program targets high-quality hydrocarbon reserves and production in four focus areas: the Edson area of west central Alberta, Canada; east central Saskatchewan, Canada; Monroe and Conecuh Counties, Alabama, USA; and Mountrail County, North Dakota, USA. The Company produces oil and gas from its properties in Saskatchewan and Alberta, Canada, as well as Alabama, USA.

The common shares of Oilexco Incorporated are listed for trading on the Canadian Venture Stock Exchange and trade under the symbol 'OIL'.

All dollars are expressed in Canadian funds unless otherwise stated.

ABBREVIATIONS

Bbls . . . . .barrels
Bcf . . . . .billion cubic feet
BOE . . . . .barrels of oil equivalent
. . . .(10 Mcf = 1BOE)
Mbbls . . . . .thousand barrels
Mcf . . . . .thousand cubic feet
Mmcf . . . . .million cubic feet
NGLs . . . . .natural gas liquids
TCF . . . . .trillion cubic feet
WTI . . . . .West Texas Intermediate
(a crude oil used as a reference for pricing)
/d . . . . .per day



update 2000

Financial and Operational Highlights

($000s, except per share data)	*2000*	*1999*
Financial		
Gross Revenues	1,527	1,519
Funds from Operations	551	165
Per share	0.03	0.01
Net Earnings (Loss)	197	(77)
Per share	0.01	0.0
Capital Expenditures	661	386
Bank Loan	25	25
Shareholders' Equity	4,680	4,483
Common Shares Outstanding (000s)	17,842	17,842
Trading High	0.35	0.50
Low	0.10	0.12
Volume (000s of shares)	4,341	6,196
Production		
Average Barrels of Oil Equivalent per day	118.0	114.3
Reserves Proven + Probable		
Crude oil & NGLs (Mbbls)	308	303
Natural Gas (Bcf)	3.77	3.76
Barrels of oil equivalent (MBOE)	680	679
Exit rate (BOE/d)	108.6	130.4

To Our Shareholders:

In 2000 Oilexco reported increased revenues and cash flows in a year of near-record commodity prices coinciding with the decline in bullishness of stock markets. Commodity strength, which began in late 1999, was sustained through 2000 and analysts are predicting continued strength in crude oil and natural gas prices in 2001. Offsetting the strength of commodity prices are fears of economic slowdown. The retrenchment of stock markets has impacted the economy through decreased investment however, Oilexco management believes that the right capital program can still be financed in capital markets. Oilexco's increased revenue from oil and gas production was augmented by the low Canadian dollar. In addition to its economic success, the Company was also very active in pursuing new opportunities for growth.

Oilexco evaluated a number of merger and acquisition opportunities in 2000, a year when many junior oil companies were absorbed into larger entities. Chief among the Company's priorities for a successful merger was receiving 'dollar for dollar' value for Oilexco's assets, as well as compatible production and revenue streams. During the year, Oilexco entered into discussions and made unsolicited offers to merge with similar-sized oil and gas companies. Unfortunately, thus far, these efforts have been unsuccessful.

International pursuits are fundamental to Oilexco's strategy. Bolivia and the Middle East are the focus of corporate initiatives in 2001. Bolivia has a strong and sustainable oil and gas industry but is currently an importer of crude oil. Oilexco believes there is great opportunity to develop revenue streams and to fund additional development in South America. The Middle East, including Iraq continues to be an area of great potential for oil exploration and development and the Company continues to evaluate opportunities for growth in this region.

The Oilexco Board supports individual human rights to health, safety, food, education and freedom. Additionally, the Board believes that these human rights extend to all peoples, regardless of race or creed. It is upon this basis that the Company became an advocate for the people of Iraq.

In March 2000, I was invited to speak to the Parliamentary Standing Committee on Foreign Affairs and International Trade, a multi-party committee that reviews Canada's foreign relations. Based on my presentation, as well as the presentations of others including Dennis Halliday, former United Nations Assistant Secretary General, the Committee was successful in achieving a unanimous call for a change to Canadian policy regarding Iraq to more closely reflect Canadian values. The Iraqi government became aware of the resolution, leading to a meeting during the United Nations Millennium Summit in September 2000 between Mr. Tariq Aziz, other Iraqi dignitaries, a Canadian Member of Parliament, and two members of the Oilexco Board of Directors. Dialogue has continued between the Iraqi Government and other dignitaries, including Kofi Annan in the months following the Millennium Summit and despite recent setbacks, there is hope for change in the sanctions regime targeted at the Iraqi people.

Domestically, the Company's 2000 drilling program was disappointing. Two wells were drilled in Saskatchewan on trend of existing production, but the wells were dry and abandoned. From knowledge gained by these efforts, new locations are being developed. The Company is evaluating a number of locations for drilling at Vocation Field, Alabama. Oilexco plans to fund its 2001 North American drilling program from cash flow derived from its producing properties.

In closing, I would like to express my appreciation to our shareholders for their continued support and interest in our diverse activities. I would also like to thank our Board of Directors for their support and counsel and say farewell to Jay Zammit and thank him for his contribution to the Company.

Finally, I thank the Oilexco team for their dedication and hard work.

On behalf of the Board of Directors,

Arthur Millholland
President and Chief Executive Officer

IRAQ

Oilexco began a dialogue with the Government of Iraq in 1997 to determine the feasibility of establishing a business relationship while following the United Nations resolutions imposed on Iraq after the Gulf War. Oilexco's commitment to Iraq developed after seeing the devastating conditions under which the people of Iraq were living. Oilexco management is witness to the human consequence of foreign policy aimed at a Government, but affecting its civilian population. All aspects of Iraqi life had been impacted – from water and sanitation to health care and education. The level of malnutrition is appalling, and as publicized by the United Nations, estimates of deaths are between 3,000 to 5,000 Iraqis per month. Oilexco would not focus on increasing corporate wealth of the Company while ignoring the unprecedented suffering of the Iraqi people, and therefore is committed to assisting all people adversely affected by this inflexible policy.

Oilexco has taken a firm stand on human rights and set about to persuade the people and government of Canada to separate the issue of sanctions directed at civilians and civilian infrastructure from the remaining legitimate issues of disarmament. To this end, Oilexco has actively lobbied the federal government to review its policies on Iraq. In November 2000, Arthur Millholland was awarded the 2000 YMCA Peace Medal in recognition of his and Oilexco's initiatives in this important humanitarian cause. Oilexco continues its efforts to affect change upon the sanctions regime.

Concurrent with its humanitarian activities, Oilexco has pursued a number of economic initiatives with Iraq and has identified two oilfield development projects. These two oilfields have been delineated, but have never been placed on production. Discussions for the awarding of these development projects continue, but final negotiations will not occur until the sanctions imposed on Iraq are lifted. While the delay in completing these negotiations is troublesome and at times frustrating, all companies expressing an interest in the Iraqi oilfields are subject to the same constraints. A significant benefit accruing from Oilexco's commitment to Iraq and its negotiations to date is reputation and respect in the Arab world. Learning the Arab corporate culture has been valuable and places Oilexco favourably for other Middle East business opportunities.

In 1998, Oilexco became the first Canadian company awarded a crude oil lifting contract with the Republic of Iraq under the United Nations Oil for Food Program. In February 1999, the Company was awarded an unprecedented second oil lifting contract, followed by its third lifting contract for 1.9 million barrels of Kirkuk light crude oil, in January 2001. The selling price of this lifting contract as set by the United Nations was above market and consequently the Company has requested an extension on exercising the contract. Management anticipates that demand for this grade of crude oil will increase over the spring and summer, making the liftings substantially more profitable. While pursuit of the crude oil lifting contracts was not an initial focus for Oilexco, the Oil for Food contracts have provided the Company with a means of recovering the costs of negotiations on the oilfield development projects to date. These contracts in turn allow the Iraqi Government to acknowledge and consider Oilexco's ongoing humanitarian efforts. Oilexco's Iraqi humanitarian initiative is dependent on international political forces with the power to lift or modify the sanctions regime. Oilexco continues to lobby the Government of Canada to become more active on the issue and present a clear national policy on Iraq.

BOLIVIA

Oilexco is currently evaluating oil production acquisitions as well as exploration and development opportunities in Bolivia.

Bolivia is a country with extensive oil and gas opportunities and an excellent infrastructure. Its royalty and taxation system on oil and natural gas is comparable to that in place in Canada.

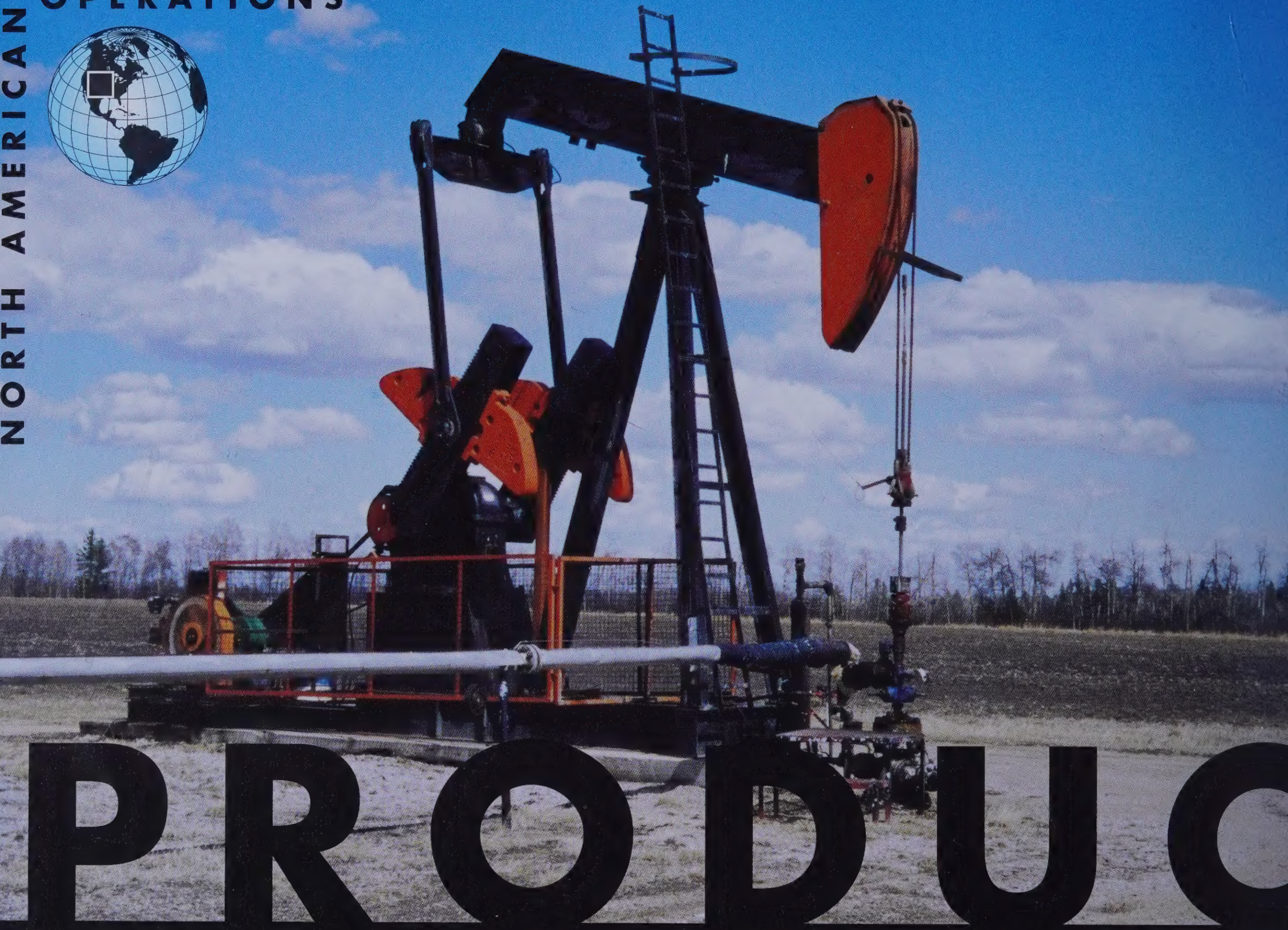
Currently, Bolivia is receiving substantial attention from major oil companies focusing on world scale natural gas exploration prospects. It is generally believed that the country's oil and natural gas potential is far from being reached. Bolivia has tremendous natural gas reserves, currently estimated to be in excess of 30 Tcf. To date, discoveries of natural gas have out-paced demand, but the construction of the Bolivia to Brazil pipeline and plans for a second pipeline to Brazil and

would seriously increase the demand for Bolivian natural gas.

While Oilexco's interest is primarily on the oil side, BP Amoco, Repsol YPF, Shell, Petrobras and TotalElfFina are all exploring for world-scale natural gas reserves.

Control of the Bolivian oil industry was held by the state-run Yacimientos Petroliferos Fiscales

Bolivianos (YPFB) until 1994. In that year, Bolivia began the privatization of the state oil company. YPFB was divided into numerous autonomous operations including two production units with BP Amoco and Repsol YPF each holding half ownership, a transport company, a refinery company and several service companies. In the subsequent years, all of the downstream divisions have successfully been privatized. Privatization has provided many economic opportunities for all aspects of the oil and natural gas industry and the Bolivian government encourages international investment. Bolivia has large reserves of sweet light crude oil that have been discovered but not developed efficiently and because Bolivia is a net importer of crude oil, oil produced from these fields can easily be sold domestically. Production efforts to date of the two producing companies have focused on the largest of these reserves, leaving an opportunity for a company Oilexco's size to participate in the smaller fields. Oilexco has expressed an interest in and hopes to conclude negotiations on a production acquisition/oil field re-activation program in the third quarter of 2001 for substantially less cost than comparable projects in Canada.



PRODUC

Reserves

	Oil Mbbls	Gas Mmcf	NGLs Mbbls
Proven Producing	126	494	17
Proven Non-producing	0	293	9
Proven Undeveloped	0	599	20
Total Proven	126	1,386	46
Probables	48	2,381	88
Total Proven + Probables	174	3,767	134

The estimated present value of future net revenues, using constant prices and costs, before income tax and overhead costs attributable to Oilexco's net reserves are as follows:

Estimated Present Value discounted at	0% (000s)	10% (000s)	15% (000s)	20% (000s)
Proven Producing	5,406	3,756	3,343	3,039
Proven Non-producing	1,251	804	667	5656
Proven Undeveloped	3,059	1,528	1,201	978
Total Proven	9,716	6,088	5,211	4,582
Probables	13,981	7,362	5,969	5,016
Total Proven + Probables	23,697	13,450	11,180	9,598

Note: It should not be assumed that the discounted value of the estimated future net revenues is representative of the fair market value of the estimated petroleum and natural gas reserves.

Reserves

Oilexco's total proven reserves at January 1, 2001, as evaluated by Dobson Resource Management were 172,000 barrels of oil and natural gas liquids and 1.386 billion cubic feet of natural gas; proven and probable oil and gas reserves for 2000 were 308,500 barrels of oil and liquids and 3.767 billion cubic feet of gas.

PRODUCING PROPERTIES

Oilexco currently derives its production from three properties:

- Vocation Field in Alabama which produces oil and gas from the Smackover Formation
- Forgan West Field in west Saskatchewan which produces oil from the Lower Cretaceous Viking Formation
- Wild River Field near Edson, Alberta which produces from the Viking Formation

Vocation Field, Monroe County, Alabama

Oilexco holds a 12.5% working interest in an exploration and development program on 3,840 gross acres of petroleum leases within and surrounding the Vocation Field in Monroe County, Alabama. The primary reservoir in the field is the Jurassic Smackover formation, which produces 52° API sweet crude and is one of the most prolific reservoirs in the Gulf Coast region.

In 1997, Oilexco and its partners drilled the first successful well at the Vocation Field. A moderately successful workover on this well was completed in 1999 and the well was placed back on production. In 2000, production was increased to 70 Bbls/d and operating costs were decreased due to the installation of a hydraulic pump into the well. Oilexco declined to participate in two exploratory wells that were drilled and abandoned in 2000. As a result of its partners' unsuccessful efforts, Oilexco initiated a reprocessing of a 30 square mile 3-D seismic survey to enhance porosity identification before new drilling sites are identified.

In July 1998, Oilexco and its partners completed the second successful well at Monroe County resulting in a significant discovery, the Blacksher #1, which produces from the Smackover formation. In 1999, a planned gas conservation scheme was implemented, increasing production at the well to the maximum state-allowable of 600 Bbls/d. Production from this well has been stable in 2000, ending the year at 625 Bbls/d. Plans are underway in 2001 to complete a reprocessing and reinterpretation of 3-D seismic at this area as well as the drilling of development or pool extension wells.

Edson, Alberta: Wild River

Oilexco has successfully drilled a number of Viking gas wells in this area since 1993. In 1997, the Company reduced its working interest by farming out 50% of its holdings to a major industry player. In 1999, production and processing facilities upgrading was completed and the shut-in gas well was tied in. The facilities' production was again shut-in in 2000 during construction of a new gas processing plant. Upon completion of the plant in early 2001, the wells recommenced production.

TION

EXPLOR

Undeveloped Land

Oilexco acquired additional lands in Saskatchewan, North Dakota and Alabama.

	2000			1999		
	Gross Acres	*Net Acres*	*Interest Average*	*Gross Acres*	*Net Acres*	*Interest Average*
CANADA						
Alberta	10,400	1,907	18	10,400	1,907	18.0
Saskatchewan	17,416	9,460	54.3	42,244	34,746	82.3
UNITED STATES						
Alabama	9,342	1,762	19	9,715	2,935	30.2
North Dakota	22,553	5,638	25	22,553	5,638	25.0
TOTAL	59,711	18,767	32	84,912	45,226	53.3

EXPLORATION

Castleberry, Conecuh County, Alabama

In 1997, Oilexco acquired a 50% working interest in the Castleberry, Alabama area, approximately 18 miles east of the Vocation Field. The current leasehold results from a 32 square mile 3-D seismic survey acquired in 1997 to evaluate an original 16,950-acre lease block. Interpretation of the 3-D seismic survey identified five suitable drilling prospects. In 1999, Oilexco sold 12.5% of its net interest in the project, enabling it to recover some of its initial investment.

In 2000, the Company farmed out its interest in an exploratory well that was drilled and abandoned at no cost to Oilexco. Information gained from the drilling of this well updated the original 3-D seismic interpretation, identifying a new drilling site. Oilexco supports the location of this drilling opportunity and is participating in the well. Subsequent to the drilling agreement, a farm-out for a portion of this well was negotiated, thereby reducing Oilexco's risk while maintaining a 13.25% position in a successful venture. The well was drilled and abandoned in the second quarter of 2001.

Mountrail County, North Dakota

Oilexco began its drilling program in this area in 1993. In 1997, the Company entered into an agreement with a new partner wherein the partner agreed to spend $350,000 USD to earn one half of Oilexco's original interest in the lands it then held. In 2000, a senior Canadian oil and gas company acquired the interests of Oilexco's partners in these lands. Subsequent to this, additional lands were acquired and the Company may drill one well at this location in 2001.

ATION

Southeast Saskatchewan

Oilexco participated for a 60% interest in two exploratory wells that were drilled and abandoned in 2000. The disappointing results have provided additional evaluation data and additional future drilling opportunities are currently being evaluated.

CORPORATE INFORMATION

AUDITORS
Arthur Andersen LLP
Chartered Accountants
Calgary, Canada

BANKERS
Royal Bank of Canada
Calgary, Alberta
Canadian Western Bank
Calgary, Alberta

LEGAL COUNSEL
Field Atkinson Perraton
Calgary, Alberta

TRANSFER AGENT AND REGISTRAR
Montreal Trust Company of Canada
Calgary, Alberta

SHARE LISTING
The Canadian Venture Stock Exchange
Symbol: OIL

HEAD OFFICE
3200 - 715 5th Avenue SW
Calgary, Alberta T2P 2X6
Telephone: (403) 262-5441
Facsimile: (403) 263-3251
Internet: www.oilexco.com

DIRECTORS
Arthur S. Millholland (1)
President
Oilexco, Incorporated
Calgary, Alberta

John F. Cowan (1) (2) (3)
Vice President
CanEnerCo Ltd.
London, Ontario

D. B. (Don) Copeland (1)
President
Pangman Resource International Ltd.
Calgary, Alberta

Brian L. Ward
Chief Financial Officer
Oilexco, Incorporated
Calgary, Alberta

Jay Zammit (1)(3)*
Partner
Burstall Ward
Calgary, Alberta

MANAGEMENT
Arthur S. Millholland, P. Geol.
President and Chief Executive Officer

Brian L. Ward
Chief Financial Officer

(1) Member of the Audit Committee
(2) Chairman of the Audit Committee
(3) Member of the Compensation Committee
* not standing for re-election

ANNUAL GENERAL MEETING
The Annual General Meeting of the Shareholders of Oilexco will be held on Thursday June 21, 2001 at 3:00 pm at the 400 Club, 710-4 Ave. SW, Calgary, Alberta.

Chapman • Crawford

Financial Statements &

Management Discussion and Analysis

December 31, 2000 and 1999

OILEXCO

Incorporated

CORPORATE INFORMATION

AUDITORS
Arthur Andersen LLP
Chartered Accountants
Calgary, Canada

BANKERS
Royal Bank of Canada
Calgary, Alberta
Canadian Western Bank
Calgary, Alberta

LEGAL COUNSEL
Field Atkinson Perraton
Calgary, Alberta

TRANSFER AGENT AND REGISTRAR
Montreal Trust Company of Canada
Calgary, Alberta

SHARE LISTING
The Canadian Venture Stock Exchange
Symbol: OIL

HEAD OFFICE
3200 - 715 5th Avenue SW
Calgary, Alberta T2P 2X6
Telephone: (403) 262-5441
Facsimile: (403) 263-3251
Internet: www.oilexco.com

DIRECTORS
Arthur S. Millholland (1)
President
Oilexco, Incorporated
Calgary, Alberta

John F. Cowan (1) (2) (3)
Vice President
CanEnerCo Ltd.
London, Ontario

D. B. (Don) Copeland (1)
President
Pangman Resource International Ltd.
Calgary, Alberta

Brian L. Ward
Chief Financial Officer
Oilexco, Incorporated
Calgary, Alberta

Jay Zammit (1)(3)*
Partner
Burstall Ward
Calgary, Alberta

MANAGEMENT
Arthur S. Millholland, P. Geol.
President and Chief Executive Officer

Brian L. Ward
Chief Financial Officer

(1) Member of the Audit Committee
(2) Chairman of the Audit Committee
(3) Member of the Compensation Committee
* not standing for re-election

ANNUAL GENERAL MEETING
The Annual General Meeting of the Shareholders of Oilexco will be held on Thursday June 21, 2001 at 3:00 pm at the 400 Club, 710-4 Ave. SW, Calgary, Alberta.

Chapman • Crawford

Financial Statements &
Management Discussion and Analysis

December 31, 2000 and 1999

OILEXCO

Incorporated

All dollars are expressed in Canadian funds unless otherwise stated.

MANAGEMENT'S DISCUSSION AND ANALYSIS

This annual report contains forward-looking statements, including various forecasts, projections of Oilexco's future performance, statements of the Company's objectives and other similar types of information. Although the Company believes that its expectations are based on reasonable assumptions, it cannot assure that the expectations contained in such forward-looking statements will be achieved. Such statements involve risks, uncertainties and assumptions, including but not limited to, those relating to the factors discussed in this annual report, which could cause actual results to differ materially from those contained in such statements.

Industry Overview

Sustained strength in oil and natural gas prices in 2000 was the single largest factor affecting revenues in the resource sector. Efforts by OPEC to control supply of crude oil were largely successful, resulting in near-term record prices for crude oil both domestically and abroad. Natural gas prices were at record levels due to increased demand in North American markets due to an increased reliance on this energy source and an unusually harsh winter in many parts of North America. Prices have since moderated for both crude oil and natural gas, but we are predicting a healthy price for oil of $27US per barrel WTI and $7.00/Gj on the Canadian spot market for natural gas for 2001. Drilling activity in the Canadian oil and gas industry has increased in this strong market, causing the costs of goods and services within the oil patch to rise and creating drilling rig and crew availability shortages throughout the industry. Poor weather and drilling conditions have exacerbated these shortages and the possibility of a wet summer in 2001 will increase the strain on the supply side. Economically, the world is experiencing an entrenchment of position from the growth of the past few years, causing wariness on the side of investors. The length and severity of the economic downturn currently being experienced will impact potential investment in the resource sector as inexperienced investors have been shaken by the downward trend in the markets and have withdrawn their capital. These investors had previously turned away from resource stocks in favour of the high-tech industry with its promise of quick return on investment. This loss of capital investment impacts the junior oil and gas sector as these companies are generally misunderstood, undervalued and often ignored by the investment community, compounding the difficulty of raising new capital in a bear market. Offsetting this difficulty in attracting future investment, however, is the potential for investment in junior oil stocks as a consequence of the demise of publicly traded intermediate oil companies purchased by major Canadian and American oil and gas producers in 2000. Investors who are looking for resource opportunities may give the junior oil and gas sector a closer look.

The Canadian dollar continues to languish at historic lows. Currently, the Federal Government is content with the valuation of the dollar as its weakness bolsters the country's trade surplus with the United States, making a projection of the Canadian dollar's value in 2001 extremely difficult. Oilexco benefits from the low dollar on the revenue side from its Alabama production; drilling at Castleberry in 2001 will be funded from US revenue, reducing the impact of the low Canadian dollar on Oilexco.

Financial Review

Oilexco had oil and gas revenues before royalties of $1,816,852 in 2000, a 63% increase from $1,117,472 in 1999. This increase reflects the high price of crude oil on the world market, as well as sustained production from the Alabama wells, offset by the shut-in gas wells in Edson, Alberta. Sales of oil, gas and liquids averaged 118 BOE per day in 2000, up slightly from 114 BOE in 1999. Overall, the 2000 exit rate of production was 108.6 BOE per day compared to 130.4 BOE per day in 1999. Oilexco expects revenues to increase in 2001 to reflect a continuation of high oil and gas prices and a forecast increase in production volumes.

Other revenues in 2000 totalled $18,682, down significantly from $541,502 in1999. In 2000, other revenues resulted from oil and gas royalty

income. The decrease from 1999 is caused by no crude oil liftings from Iraq under the Oil for Food Program. In 2001, the Company anticipates that other revenues will increase if the third crude oil lifting contract awarded by the Republic of Iraq can be marketed at a net profit to the Company.

Operating expenses in 2000 decreased by 22% to $275,126 compared to $353,006 in 1999, reflecting the shut-in of the Wild River production for 10 months. The Company did not report prospect evaluation expense in 2000, compared to $104,049 spent in 1999. Royalties paid in 2000 totalled $308,984 in 2000, an increase of 120% from $140,122 in 1999, the result of increased well production in Alabama and increased crude oil and natural gas prices. Should prices remain strong and production levels continue, Oilexco expects royalties paid to increase in 2001.

General and administrative expenses decreased in 2000 to $702,127 from $774,7000 in 1999 due to office efficiencies and reduction in staff levels. These expenses are expected to increase in 2001 as the Company's office lease has expired and new space has been leased effective June 2001. Depletion and depreciation for 2000 decreased by 5% to $346,439 from $363,794 in 1999 because of reduced production levels reflecting the Wild River shut-in. In both 2000 and 1999 depletion and depreciation expenses arise from production of oil and gas assets. No ceiling test write-downs were taken in 2000 and 1999.

Funds flow from operations in 2000 increased to $551,154, a 333% increase from $165,094 in 1999. This substantial increase is due to the increased revenues from oil and gas and decreased overhead and operating efficiencies. Oilexco reported net income of $196,815 in 2000, compared to a loss of $76,566 in 1999.

Liquidity and Capital Resources

Oilexco's capital program for 2000 totalled $660,769 and was funded from internal cash flow and working capital. The Company did not dispose of any capital assets in 2000. During 2000, no options of the Company were exercised. Assuming all outstanding options are exercised, the Company would realize gross proceeds of approximately $603,500. In 2001, Oilexco plans to finance its North American capital program through internal cash flow.

In 2000, Oilexco maintained its credit facility at $500,000, of which $25,000 had been utilized at year-end. The Company had working capital of $35,960 and no long-term debt.

Share Capital

Shares Outstanding

December 31, 2000

Issued	17,842,388
Options	1,746,000
Fully Diluted	19,588,388

Corporate Stewardship

Oilexco's Board of Directors comprises five members, three of whom are outside directors. The Company's audit committee consists of three members, two of whom, including the Chairman, are external directors. The President of the Company continues to hold the position of Chief Executive Officer of Oilexco. Since 1999, the Chairman of the Board has been an external member of the Board of Directors.

Safety, Environmental and Risk Management

Oilexco endeavours to conduct its operations in a safe and environmentally responsible manner. The Company has prepared, and uses, safety, environmental risk management and emergency response manuals developed specifically for its operations. To date, Oilexco has had no material environmental incidents or lost time accidents. As well, the Company reviews future site abandonment and site restoration costs annually.

The Company acknowledges risk potential with travel to its international initiatives. Reasonable and prudent precautions are taken when visiting these countries.

MANAGEMENT REPORT

Management of the Company has prepared the consolidated financial statements and the information contained therein. The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Canada and, where appropriate, reflect management's best estimates and judgements under the circumstances. A system of internal accounting control is maintained, consistent with reasonable costs, to provide reasonable assurance that assets are adequately safeguarded and that financial information is appropriately maintained for the preparation of reliable financial statements.

The Company's independent auditors, Arthur Andersen LLP, who are appointed by the shareholders, conduct an audit in accordance with generally accepted auditing standards to allow them to express an opinion on the consolidated financial statements. The Audit Committee of the Board of Directors, with two of the three members not being Officers of the Company, meets with management and Arthur Andersen LLP to review these statements and related financial reporting matters prior to submitting the consolidated financial statements to the Board of Directors.

Arthur S. Millholland, P. Geol.,
President and Chief Executive Officer

Brian L. Ward
Chief Financial Officer

AUDITORS' REPORT

To the shareholders of Oilexco Incorporated:

We have audited the consolidated balance sheets of Oilexco Incorporated as at December 31, 2000 and 1999 and the consolidated statements of earnings (loss) and deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2000 and 1999 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Arthur Andersen LLP

Arthur Andersen LLP
Chartered Accountants
Calgary, Alberta
April 11, 2001

CONSOLIDATED BALANCE SHEETS

As at December 31

	2000	1999
ASSETS		
Current Assets		
Cash	$ 21,713	$ 79,325
Accounts Receivable	457,506	1,558,353
Other	11,548	52,282
	490,767	1,689,960
Capital Assets (Note 3)	4,771,124	4,447,365
	$ 5,261,891	$ 6,137,325
LIABILITIES AND SHAREHOLDER'S EQUITY		
Current Liabilities		
Accounts Payable and Accrued Liabilities	$ 429,807	$ 1,511,485
Operating Line of Credit (Note 4)	25,000	25,000
	454,807	1,536,485
Future Site Restoration Costs	127,270	117,841
Commitments (Note 10)		
Shareholders' Equity		
Share Capital (Note 5)	16,620,098	16,620,098
Deficit	(11,940,284)	(12,137,099)
	4,679,814	4,482,999
	$ 5,261,891	$ 6,137,325

Approved on behalf of the Board:

Arthur S. Millholland,
Director

Brian L. Ward,
Director

The accompanying notes form an integral part of these financial statements.

CONSOLIDATED STATEMENTS OF EARNINGS (LOSS) AND DEFICIT

For the Years Ended December 31

	2000	1999
Revenues		
Oil and Gas Sales	$ 1,816,852	$ 1,117,472
Royalties	(308,984)	(140,122)
Other Income (Note 7)	18,682	541,502
	1,526,550	1,518,852
Expenses		
General & Administration	702,127	774,700
Operating	275,126	353,006
Prospect Evaluation (Note 8)	–	104,049
Depletion and Depreciation	346,439	363,794
Interest	6,043	2,709
	1,329,735	1,598,258
Earnings (Loss) Before Provision for Income Taxes	196,815	(79,406)
Future Income Taxes (Note 6)	–	–
Capital Taxes (Note 6)	–	(2,840)
Net Earnings (Loss)	196,815	(76,566)
Deficit, Beginning of Year	(12,137,099)	(12,060,533)
Deficit, End of Year	$ (11,940,284)	$ (12,137,099)
Basic and Fully Diluted Earnings (Loss) per Share (Note 5)	$ 0.01	$ –

The accompanying notes form an integral part of these financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Years Ended December 31

	2000	1999
Cash Flows from Operating Activities		
Net Earnings (Loss)	$ 196,815	$ (76,566)
Items Not Affecting Cash Flow		
Depletion and Depreciation	346,439	363,794
Loss (Gain) on Sale of Assets (Note 7)	7,900	(122,134)
Funds Flow from Operations	551,154	165,094
Change in Non-Cash Working Capital	(79,472)	(115,244)
	471,682	49,850
Cash Flows from Financing Activities		
Increase in Operating Line of Credit	–	25,000
	–	25,000
Cash Flows from Investing Activities		
Additions to Capital Assets	(660,769)	(386,006)
Dispositions of Capital Assets	–	305,468
Change in Non-Cash Working Capital	131,475	(525,687)
	(529,294)	(606,225)
Decrease in Cash	(57,612)	(531,375)
Cash – Beginning of Year	79,325	610,700
Cash – End of Year	$ 21,713	$ 79,325
Interest Paid	$ 6,043	$ 2,709
Income Taxes Paid	$ –	$ –
Basic and Fully Diluted Funds Flow from Operations per Share (Note 5)	$ 0.03	$ 0.01

The accompanying notes form an integral part of these financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2000 and 1999

1. FUTURE OPERATIONS

Oilexco Incorporated and its wholly-owned subsidiary Oilexco America, Inc. (together "the Company") are involved in the exploration, development, production, and marketing of oil and gas in North America and internationally.

The Company requires the continuing financial support of its lenders and additional financing in order to fund its existing obligations, ongoing exploration and development programs and commitments. Management intends to raise the required financing through a combination of equity issues, cash flow, bank financing, asset rationalizations, farm-outs and other means.

2. SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The consolidated financial statements include the accounts of Oilexco Incorporated and its wholly-owned subsidiary Oilexco America, Inc.

Use of Estimates

These financial statements are prepared in accordance with generally accepted accounting principles which require management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingencies at the date of the financial statements and reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

Property, Plant and Equipment

The Company follows the full cost method of accounting for oil and gas properties and related expenditures, whereby all costs relating to the exploration for and development of petroleum and natural gas reserves are capitalized and accumulated in cost centres on a country by country basis. Such costs include land acquisition, geological and geophysical, drilling, equipment and facilities, carrying charges on non-producing properties and related overhead. Unevaluated properties are assessed periodically to ascertain whether impairment has occurred. When proven reserves are assigned or the property is considered to be impaired, the cost of the property or the amount of the impairment is added to costs subject to depletion. The Company has two cost centres, Canada and the United States.

Proceeds from the sale of oil and gas properties are applied against capitalized costs, with no gain or loss recognized, unless such a sale alters the rate of depletion and depreciation by 20% or more.

The costs related to each cost centre are depleted and depreciated on the unit-of-production method based on the estimated proven reserves before royalties of each country. Oil and gas reserves and production are converted into equivalent units based upon estimated relative energy content on a 6:1 basis.

The total capitalized costs less accumulated depletion and depreciation, accrued future site restoration costs and future income taxes of all cost centres is limited to an amount equal to the estimated future net revenue (after deducting future site restoration costs) from proven reserves at year end prices and costs, plus the cost less impairment of unevaluated properties of all cost centres, less estimated future production related general and administrative expenses, financing costs and income taxes.

Estimated future site restoration costs are provided on the unit-of-production method based on the estimated proven reserves. Costs are based on engineering estimates in accordance with current legislation and industry practices. The annual charge is recorded as additional depletion and depreciation. Actual expenditures are charged against the accumulated provision as incurred.

Other fixed capital assets are depreciated on a declining balance basis at 20% per year.

Joint Interest Operations

Substantially all of the Company's oil and gas activities are carried out jointly with others. These consolidated financial statements reflect only the Company's proportionate interest in such activities.

Future Income Taxes

On January 1, 2000, the Company changed to the liability method of accounting for income taxes, whereby income tax assets and liabilities are recognized at enacted rates for the difference between the tax bases of assets and liabilities and the carrying amounts in the financial statements. Prior to 2000, the Company followed the deferral method of accounting for income taxes. The new policy was applied retroactively, there was no impact on the 1999 financial statements as reported.

Foreign Currency Translation

The accounts of Oilexco America, Inc. are translated using the temporal method. Under this method monetary assets and liabilities are translated at the year-end exchange rate; non-monetary assets and liabilities are translated at historical exchange rates. Revenue and expenses are translated at the weighted average exchange rate for the year. Exchange gains and losses from the translation of monetary items are included in the consolidated statement of earnings (loss).

Prospect Evaluation Expenses

The Company expenses costs incurred in the evaluation and development of potential business ventures until related business arrangements are consummated. Project related costs incurred thereafter are capitalized and amortized over the life of the project.

Stock-Based Compensation Plan

The Company has a stock-based compensation plan, which is described in Note 5. No compensation expense is recognized when stock options are issued to employees. Any consideration paid by employees on exercise of the stock options is credited to share capital.

Financial Instruments

The fair value of cash, accounts receivable, accounts payable and the operating line of credit approximate their carrying values due to the short term nature of these items.

3. CAPITAL ASSETS

	2000	*1999*
Oil and gas properties and equipment	$17,141,804	$16,483,920
Accumulated depletion	(12,410,082)	(12,082,922)
	4,731,722	4,400,998
Furniture and equipment	97,097	94,212
Accumulated depreciation	(57,695)	(47,845)
	39,402	46,367
	$4,771,124	$4,447,365

During the year the Company capitalized $nil (1999 - $nil) of administrative overhead to oil and gas properties.

4. OPERATING LINE OF CREDIT

The Company has an available line of credit of $500,000 (1999 - $500,000) which bears interest at prime plus 1.25% per annum. The loan is collateralized by a fixed and floating charge debenture in the principal amount of $1,000,000 over all assets and undertakings of the Company, a general security agreement, an environmental indemnity and an assignment of accounts receivable. At December 31, 2000, $25,000 (1999 - $25,000) was outstanding on this line of credit. The line of credit is reviewed annually by the bank for renewal. If the line of credit is not renewed, then any balances outstanding are due and payable on demand.

5. SHARE CAPITAL

a) Authorized

Unlimited number of voting Common Shares without nominal or par value

Unlimited number of Preferred Shares issuable in series.

b) Issued

Common Shares	*Number*	*Consideration*
January 1, 1999, December 31, 1999 and December 31, 2000	17,842,388	$16,620,098

c) Per Share Data

Basic earnings and funds flow from operations per share are calculated based on the weighted average number of 17,842,388 (1999 – 17,842,388) shares outstanding during the year. The effect of the exercise of stock options and warrants on the fully diluted number of shares of 19,529,638 (1999 – 20,178,388) is anti-dilutive.

d) Warrants

On June 18, 1998 the Company issued 1,000,000 Common Share Purchase Warrants in conjunction with a $500,000 private placement financing of 1,000,000 Common Shares. One Common Share Purchase Warrant plus $0.60 entitles the holder to purchase one additional Common Share of the Company until June 18, 1999. On June 9, 1999, the Company received regulatory approval to extend the expiry of the Common Share Purchase Warrants to June 18, 2000. None of the Common Share Purchase Warrants were exercised and they expired on June 18, 2000.

In addition, the Company issued 200,000 Broker Purchase Warrants to purchase 100,000 Common Shares at $0.50 each and 100,000 Common Shares at $0.60 each until June 18, 1999 to the Agents of the private placement. On June 18, 1999 the Broker Purchase Warrants expired unexercised.

e) Stock Options

Stock options entitling the holder to purchase Common Shares of the Company have been granted to the officers, directors, employees and certain consultants of the Company. Options vest immediately and exercisable for a period of five years from the date of grant. At December 31, 2000, options to purchase 1,746,000 (1999 – 1,596,000) Common Shares were outstanding, having an exercise price range of $0.18 to $0.45 (1999 - $0.18 to $0.45) per share with an average remaining contractual life of 2.7 (1999 – 3.2) years.

Changes to the Company's stock options are summarized as follows:

	2000		1999	
	Number of Options	*Wt. Average Option Price*	*Number of Options*	*Wt. average Option Price*
Balance, beginning of year	1,596,000	$0.37	1,761,000	$0.42
Granted	235,000	0.20	325,0000	.18
Expired	(85,000)	0.40	(490,000)	0.42
Balance, end of year	1,746,000	$0.34	1,596,000	$0.37
Exercisable at year-end	1,746,000	$0.34	1,596,000	$0.37

6. FUTURE INCOME TAXES

The tax-effected temporary differences on future income tax asset (liability) are reconciled as follows:

	2000	1999
Oil and gas properties	$1,941,752	$1,927,718
Oil and gas equipment	67,609	81,169
Furniture and equipment	5,859	2,504
Future site restoration costs	41,622	38,982
Share issue costs and other	16,514	108,237
Income tax losses	2,628,394	2,592,555
	4,701,750	4,751,165
Valuation allowance	(4,701,750)	(4,751,165)
Future income tax asset (liability)	$ –	$ –

The income tax provision differs from the expected results obtained by applying the statutory tax rate of 45.33% (1999 – 45.23%) to the earnings (loss) before taxes as summarized below:

	2000	1999
Earnings (loss) before provision for income taxes	$ 196,815	$ (79,406)
Expected tax provision (recovery)	89,216	(35,915)
Add (less):		
US tax rate differential	(149,568)	(38,259)
Non-deductible crown charges	(296)	1,035
Resource Allowance	50;247	53,399
Foreign exchange	8,729	–
Benefit of US net operating loss recognized	(192,654)	–
Unrecorded benefit of accounting loss	194,326	19,740
Capital taxes	–	(2,840)
Actual income tax provision (recovery)	$ –	$ (2,840)

The Company has the following approximate balances available to be applied against future income for tax purposes:

	Canada $Cdn	United States $US
Canadian exploration expense	6,731,000	–
Canadian development expense	37,000	–
Canadian oil and gas expenses	729,000	–
Undepreciated capital costs	354,000	–
Unamortized share issue costs	33,000	–
Depletable property	–	718,000
Depreciable property	–	43,000

In addition, the Company has non-capital loss carry-forwards for Canadian income tax purposes of approximately $3.2 million which expire from 2001 to 2007 and US net operating losses of approximately US $3.1 million which expire from 2009 to 2013.

7. OTHER INCOME

	2000	1999
Other income consists of:		
Marketing	$ –	$396,181
Interest	–	4,154
Royalties	18,767	9,263
Gain (loss) on sale of assets	(7,900)	122,134
Other	7,815	9,770
	$18,682	$541,502

Marketing income consists of proceeds realized by the Company from the marketing of crude oil, pursuant to a Crude Oil Sales Contract granted by the Republic of Iraq under the United Nations Security Council Resolution 986 – Oil for Food Program.

Effective December 31, 1999, the Company purchased all of the units of an oil and gas partnership for $1,107,800. The Company immediately sold the oil and gas assets of the partnership for net proceeds of $1,229,934 and recognized a gain of $122,134.

8. PROSPECT EVALUATION EXPENSES

These expenses comprise of $nil (1999 - $104,049) relating to the evaluation of significant potential international business ventures in Iraq. Such costs include: travel, consulting fees, legal expenses, data acquisition, documentation, communication, banking fees and charges, and marketing costs. In 2000, the Company capitalized $233,913 (1999 - $143,965) relating to prospect evaluation costs which are included in oil and gas properties.

9. SEGMENTED INFORMATION

Oilexco's activities are conducted in two geographic segments, Canada and United States. All activities relate to the exploration, development, production, and marketing of oil, natural gas and liquids.

	Revenues		*Capital Assets*	
	2000	*1999*	*2000*	*1999*
Canada	$ 408,076	$433,338	$ 2,785,657	$ 2,261,321
US	1,408,776	684,134	1,985,467	2,186,044
	$ 1,816,852	$1,117,472	$ 4,771,124	$ 4,447,365

10. COMMITMENTS

The Company is committed under certain operating lease agreements for the rental of office space expiring May, 2005 as follows:

2001	$143,000
2002	$193,000
2003	$193,000
2004	$193,000
2005	$ 80,000
	$802,000